MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018 / 2019

DAU5018 – AUDITING 1

(For Diploma Students Only)

11 MARCH 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **6** pages with **4** questions.
2. Answer **ALL** questions.
3. Please write your answers in the answer booklet provided.

QUESTION 1

PART A

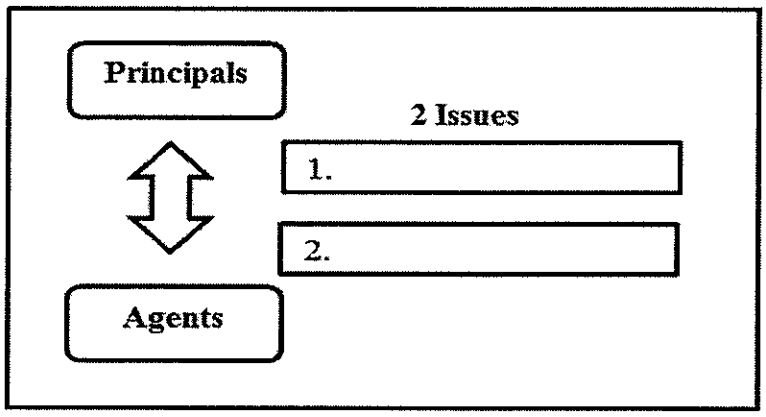

Figure 1

Figure 1 shows the relationship between principals and agents. The demand of auditing in business environment can be best explain in term of this relationship.

Required:

(a) Who is principal and agent?

(2 marks)

(b) What are the roles of both principals and agents in this relationship?

(6 marks)

(c) Identify and explain the **TWO (2)** main issues exist between principals and agents.

(6 marks)

(d) What is the role of auditor in the principals and agents relationship? (2 marks)

PART B

Section 276, 277 and 278 of Companies Act 2016 regulates the removal of auditors.

Required:

Explain the procedures that a company required to follow in order to remove its auditor based on Companies Act 2016.

(9 marks)
(Total: 25 marks)

Continued...

QUESTION 2

PART A

One of the major concern of an auditor is to identify the misstatements exists in the financial statements. Misstatements in the accounts are caused by error or fraud such as misappropriation of asset and fraudulent financial reporting.

Required:

(a) Define "error".

(2 marks)

(b) Identify whether the following situation is misappropriation of asset or fraudulent financial reporting.

No.	Situations
1.	Brian, the sales person submits double claims for his overtime payment.
2.	Lilian, a cashier in MM supermarket was caught by her supervisor for stealing cash in the cash register.
3.	An accountant manipulates the operating expenses to increase the company net income.
4.	An employee forges a signature on a check made out to his own bank account.
5.	Chief Financial Officer of Dexter Berhad hides a significant amount of liability from the financial statements.

(Note: Use the table format below to write your answers)

No.	Misappropriation of asset / Fraudulent Financial Reporting
1.	
2.	
3.	
4.	
5.	

(5 marks)

(c) Do you think that the auditors have the responsibility to detect all fraud committed by the company? Explain your reason.

(3 marks)

Continued...

PART B

Audit firm need to prepare engagement letter after the decision to accept new client or continue with an existing client has been made.

Required:

(a) Describe the purpose of engagement letter.

(2 marks)

(b) State any **THREE (3)** terms of engagement that need to be included in engagement letter.

(3 marks)

PART C

No.	Statements
1.	The auditor issues this report when the effect of the scope limitation is so material that he is not able to obtain sufficient appropriate audit evidence to form an opinion on the overall financial statements.
2.	The auditor issues this report when he concludes that the financial statements give a true and fair view in accordance with the applicable financial reporting framework and the audit has been performed in accordance with the approved standards on auditing in Malaysia.
3.	The auditor issues this report when he adds emphasis of matter paragraph to highlight a matter which is included in a note to the financial statements. The emphasis of matter paragraph is included after the opinion paragraph.
4.	The auditor issues this report when he is of the opinion that the overall financial statements give a true and fair view. However, the opinion paragraph in the audit report is modified by the words "except for".
5.	The auditor issues this report when the auditor and client involve in disagreement. The effect of a disagreement is so material that the financial statements as a whole do not give a true and fair view in accordance with approved accounting standards

Required:

Based on the statements above, choose the appropriate audit report from the following alternative:

- Disclaimer audit report
- Standard unqualified audit report
- Adverse audit report
- Modified unqualified audit report
- Qualified audit report

Continued...

(Note: Use the table format below to write your answers)

No.	Type of Audit Report
1.	
2.	
3.	
4.	
5.	

(10 marks)

(Total: 25 marks)

QUESTION 3

PART A

Your firm is the auditor for Champion Manufacturing Berhad. Your audit team has spent 5 days to understand the company's internal control. Based on your findings, your team found that the company's internal control procedures are still weak. The management is planning to allocate a huge amount of money to improve their internal control procedures in the future. You have been asked by the management to explain the objectives of internal control toward the company activity and processes.

Required:

(a) Identify and explain any **THREE (3)** objectives of internal control.

(9 marks)

(b) State any **TWO (2)** ways your team may document the understanding of the company's internal control.

(4 marks)

(c) Explain any **TWO (2)** internal control procedures that can be applied in the company.

(6 marks)

Continued...

PART B

> The quality of audit evidence is measured by its relevance to audit objective and the level of reliability.

Required:

(a) Briefly define audit evidence.

(2 marks)

(b) Between "general ledger" and "bank statements", which documents is more reliable in financial statement audit? Provide your explanation. (4 marks)

(Total: 25 marks)

QUESTION 4

PART A

(a) Using your own words, briefly describe internal auditing.

(4 marks)

(b) Differentiate internal auditing and external auditing based on the following characteristics:

i. Audit work
ii. Primary concern
iii. Period
iv. Objective of review

(Note: Use the table format below to write your answers)

Characteristics	Internal Auditing	External Auditing
i. Audit work		
ii. Primary concern		
iii. Period		
iv. Objective of review		

(8 marks)

Continued...

(c)

External auditor may consider whether the internal auditor can provide direct assistance in gathering audit evidence.

Required:

How internal auditor's direct assistance can be beneficial towards external auditor's work?

(4 marks)

PART B

It is importance for auditors to consider the concept of materiality in performance of an audit.

Required:

(a) Explain the concept of materiality in financial statement audit.

(2 marks)

(b) State **TWO (2)** main characteristic to be considered by auditor to determine the materiality level of transaction in financial statement.

(2 marks)

PART C

In planning an audit, an auditor must determine the acceptable level of audit risk.

Required:

(a) What is audit risk?

(2 marks)

(b) State the formula for audit risk model.

(3 marks)

(Total: 25 marks)

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